

MARYLAND CORRECTIONAL ENTERPRISES

Statements of Net Assets As of June 30, 2013 and 2012

	2013	2012
ASSETS		
Current Assets:		
Cash	\$ 15,140,730	\$ 13,218,621
Accounts Receivable	4,788,588	5,692,683
Inventories	10,463,089	10,740,221
Other Assets	155,066	90,108
Total Current Assets	<u>30,547,473</u>	<u>29,741,633</u>
Capital Assets, Net of Accumulated Depreciation:		
Equipment	4,464,072	4,959,353
Structures and Improvements	2,353,000	2,779,443
Infrastructure	27,959	35,780
Total Capital Assets, Net	<u>6,845,031</u>	<u>7,774,576</u>
Total Assets	<u>37,392,504</u>	<u>37,516,209</u>
LIABILITIES AND NET POSITION		
Liabilities:		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	1,986,448	1,538,113
Accrued Vacation and Workers Compensation Costs	869,752	859,930
Deferred Revenue	1,211,158	631,866
Total Current Liabilities	<u>4,067,358</u>	<u>3,029,909</u>
Noncurrent Liabilities:		
Accrued Vacation and Workers Compensation Costs	549,254	568,193
Total Liabilities	<u>4,616,612</u>	<u>3,598,102</u>
Net Position:		
Invested in Capital Assets	6,845,031	7,774,576
Unrestricted	25,930,861	26,143,531
Total Net Position	<u>\$ 32,775,892</u>	<u>\$ 33,918,107</u>

The accompanying notes are an integral part of these financial statements.

MARYLAND CORRECTIONAL ENTERPRISES

Statements Revenue, Expenses, and Change in Net Assets For the Years Ended June 30, 2012 and 2011

	2013	2012
Operating Revenue:		
Sales and Services	\$ 50,822,528	\$ 53,026,533
Operating Expenses:		
Cost of Sales and Services	41,700,716	41,600,640
Selling, General, and Administrative Expenses	6,345,052	6,029,237
Other Selling, General, and Administrative Expenses	1,911,409	1,642,960
Depreciation	1,480,383	1,363,015
Total Operating Expenses	51,437,560	50,635,852
Operating Income	(615,032)	2,390,681
Nonoperating Revenue and Expense:		
Payment to United States Department of Health & Human Services	-	(78,776)
Miscellaneous Income	539	135
Loss on Disposal of Assets	(27,722)	(39,604)
Nonoperating Expenses, net	(27,183)	(118,245)
(Loss) Income Before Transfers and contributed capital	(642,215)	2,272,436
Transfer to State of Maryland General Fund	(500,000)	(325,000)
Change in Net Position	(1,142,215)	1,947,436
Net Position, Beginning	33,918,107	31,970,671
Net Position, Ending	\$ 32,775,892	\$ 33,918,107

The accompanying notes are an integral part of these financial statements.

MARYLAND CORRECTIONAL ENTERPRISES

Statements of Cash Flows

For the Years Ended June 30, 2012 and 2011

	2013	2012
Cash Flows from Operating Activities:		
Receipts from Customers	\$ 52,305,915	\$ 55,280,730
Payments to Suppliers of Goods or Services	(34,091,844)	(36,862,871)
Payments to Employees	(15,213,941)	(14,831,202)
Net Cash From Operating Activities	3,000,130	3,586,657
Cash Flows from Noncapital Financing Activities:		
Transfers out	(500,000)	(403,776)
Cash Flows from Capital and Related Financing Activities:		
Acquisitions and Construction of Plant and Equipment	(587,905)	(776,796)
Proceeds from Sale of Equipment	9,884	2,876
Net Cash From Capital and Related Financing Activities	(578,021)	(773,920)
Increase in Cash	1,922,109	2,408,961
Cash, Beginning of Year	13,218,621	10,809,660
Cash, End of Year	\$ 15,140,730	\$ 13,218,621
Reconciliation of Operating (Loss) Income to Net Cash		
From Operating Activities:		
Operating (Loss) Income	\$ (615,032)	\$ 2,390,681
Adjustments to Reconcile Operating Income to		
Net Cash From Operating Activities:		
Depreciation	1,480,383	1,363,015
Effect of Changes in Non-Cash Operating Assets and Liabilities:		
Accounts Receivable	904,095	3,145,201
Inventories	277,132	(1,575,857)
Other Assets	(64,958)	(13,601)
Accounts Payable and Accrued Liabilities	448,335	(856,080)
Accrued Vacation and Workers Compensation Costs	(9,117)	24,304
Deferred Revenue	579,292	(891,006)
Total Adjustments	3,615,162	1,195,976
Net Cash From Operating Activities	\$ 3,000,130	\$ 3,586,657

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements June 30, 2013 and 2012

1. ORGANIZATION AND PURPOSE

Maryland Correctional Enterprises (MCE) is organized under the State of Maryland's Department of Public Safety and Correctional Services (DPSCS) and operates under the provisions of the Correctional Services Article, Section 3-501 through 3-528 of the Annotated Code of Maryland (hereinafter referred to as the Code). The Code provides, in part, that MCE develop programs that provide work experience or rehabilitation for eligible inmates incarcerated within the DPSCS. The Code also provides that MCE be financially self-supporting. MCE headquarters is located at 7275 Waterloo Road, Jessup, MD 20794. The products and services offered by MCE are available for purchase by State of Maryland and Federal agencies, political subdivisions, and any charitable, civic, educational, fraternal, or religious association, institution, or agency for its own use and not for resale to others or as otherwise provided for under the law. MCE is included in the State's basic financial statements, and has no component units.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements were prepared on the accrual basis of accounting. Under this method, revenue is recorded when earned and expenses are recorded when incurred. MCE implemented Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62), during the year ended June 30, 2013 which did not have a material effect.

MCE implemented the financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments* (GASB 34), as of July 1, 2001. GASB 34 requires MCE to present a classified balance sheet, statement of revenue, expenses, and changes in net assets, and a statement of cash flows using the direct method. GASB 34 does not require stand-alone financial statements of a government enterprise fund, which are part of the general government but not a component unit of the general government to present required supplementary information (RSI). While GASB 34 does not preclude the presentation of RSI from the separate financial statements of a fund, GASB 34 does not require RSI to be presented.

MARYLAND CORRECTIONAL ENTERPRISES

Notes to the Financial Statements June 30, 2013 and 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts Receivable

MCE's sales are made primarily to agencies of the State of Maryland. For the fiscal years ended June 30 2013 and 2012, MCE estimates that all accounts receivable will be collectible and, accordingly, has not established an allowance for doubtful accounts.

Inventories

Inventories are stated at the lower of cost or market. Raw materials inventory is valued on an average cost basis and work in process and finished goods inventories are valued on a first in, first out basis. MCE's inventories were as follows:

	As of June 30,	
	2013	2012
Raw materials	\$ 4,512,708	\$ 4,134,867
Work in process	456,774	615,169
Finished goods	5,493,607	5,990,185
Total inventories	<u>\$ 10,463,089</u>	<u>\$ 10,740,221</u>

Capital Assets

Capital assets are recorded at cost. Depreciation expense is calculated by the straight-line method over the estimated useful lives of the assets or, for leasehold improvements, over the remaining term of the lease, whichever is shorter. Estimated useful lives of assets are as follows:

Classification	Estimated Useful Life
Equipment	2 - 10 years
Structures and improvements	5 - 15 years
Infrastructure	15 years
Buildings	30 years

Infrastructure represents the costs incurred for the planting and the subsequent development of two orchards, which have been capitalized. Commercial production has begun on both orchards and those capitalized costs are being depreciated over the estimated useful life of the orchards which will be 15 years.

MARYLAND CORRECTIONAL ENTERPRISES

Notes to the Financial Statements June 30, 2013 and 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating and Non-operating Revenue and Expense

Operating revenue and expenses generally result from providing services, producing and delivering goods in connection with MCE's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

3. CASH

As of June 30, 2013 and 2012, the amount of cash on deposit with the State Treasurer was \$15,140,730 and \$13,218,621, respectively. All interest earned on these funds reverts to the Maryland General Fund. The State Treasurer has statutory responsibility for the State's cash management activities. The amount on deposit with the State Treasurer is part of the State's internal investment pool and is not separately identified as to specific types of securities for individual agencies within the State. The State Treasurer maintains these and other State agency funds on a pooled basis in accordance with State statutes. For additional information on the risk of cash, see the State of Maryland Comprehensive Annual Financial Report.

Investment Rate Risk

The State Treasurer's investment policy states that to the extent possible, it will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the State Treasurer will not directly invest in securities maturing more than five years from the date of purchase.

Credit Risk

State law requires that the State Treasurer's investments in repurchase agreements be collateralized by United States Treasury and agency obligations. In addition, investments may be made directly in United States agency obligations. These agency obligations are rated Aaa by Moody's and AAA by Standard and Poor's. State law also requires that money market mutual funds contain only United States Treasuries or agencies or repurchase agreements secured by these. The money market mutual funds are rated Aaa/AAA. The Local Government Investment Pool is rated AAA by Standard and Poor's.

MARYLAND CORRECTIONAL ENTERPRISES

Notes to the Financial Statements June 30, 2013 and 2012

3. CASH (continued)

Concentration of Credit Risk

The State Treasurer's investment policy limits the amount of repurchase agreements to be invested with a particular institution to 30% of the portfolio. There is no other limit on the amount that may be invested in any one issuer. As of fiscal years ended June 30, 2013 and 2012, the State Treasurer had more than 5% of its investments in the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the Federal Home Loan Bank. These investments are 42%, 43%, and 5% of the State Treasurer's total investments, respectively.

4. CAPITAL ASSETS

Capital assets activity by assets classification, for the years ended June 30, 2013 and 2012, was as follows:

	2013			
	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	\$ 22,509,745	\$ 583,495	\$ 122,032	\$ 22,971,208
Structures and Improvements	4,030,562	3,679	272,148	3,762,093
Infrastructure	118,200	731	-	118,931
	<u>26,658,507</u>	<u>587,905</u>	<u>394,180</u>	<u>26,852,232</u>
Less Accumulated Depreciation for:				
Equipment	17,550,390	1,313,857	357,111	18,507,136
Structures and Improvements	1,251,119	157,974	-	1,409,093
Infrastructure	82,420	8,552	-	90,972
	<u>18,883,929</u>	<u>1,480,383</u>	<u>357,111</u>	<u>20,007,201</u>
	<u>\$ 7,774,578</u>	<u>\$ (892,478)</u>	<u>\$ 37,069</u>	<u>\$ 6,845,031</u>

MARYLAND CORRECTIONAL ENTERPRISES

Notes to the Financial Statements June 30, 2013 and 2012

4. CAPITAL ASSETS (continued)

	2012			
	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	\$ 22,260,770	\$ 771,404	\$ 522,429	\$ 22,509,745
Structures and Improvements	4,025,170	5,392	-	4,030,562
Infrastructure	118,200	-	-	118,200
	<u>26,404,140</u>	<u>776,796</u>	<u>522,429</u>	<u>26,658,507</u>
Less Accumulated Depreciation for:				
Equipment	16,778,366	1,252,111	480,085	17,550,392
Structures and Improvements	1,149,908	101,211		1,251,119
Infrastructure	72,727	9,693	-	82,420
	<u>18,001,001</u>	<u>1,363,015</u>	<u>480,085</u>	<u>18,883,931</u>
	<u>\$ 8,403,139</u>	<u>\$ (586,219)</u>	<u>\$ 42,344</u>	<u>\$ 7,774,576</u>

Depreciation expense totaled \$1,480,383 and \$1,363,015 for the fiscal years ended June 30, 2013 and 2012 respectively.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following:

	As of June 30,	
	2013	2012
Payable to vendors	\$ 1,066,512	\$ 642,929
Accrued payroll expenses	769,936	745,184
Payable to Federal government (see note 13)	150,000	150,000
Total Accounts Payable and Accrued Expenses	<u>\$ 1,986,448</u>	<u>\$ 1,538,113</u>